TABLE 1: Basic
Proforma Industry
Standards

INCOME

* All income should be included in the proforma (commercial, residential, laundry, etc.).
* All additional equity contributions to the operating budget (e.g., staged tax credit equity payments, funds to cover anticipated initial operating deficit) should be shown as income.
* The rate of increase for income should be no higher than 3 percent per year for the average project.

OPERATING EXPENSES

* All cash expenses should be included and reflect the project's type (rental, cooperative, condominium), size (number of units), services and costs provided by the locality (garbage collection, tax abatements, water and sewer charges) and type of mechanical systems (electric vs. gas).
* Expenses should always be trended higher than income on an annual basis, e.g., increases of 4 to 4.5 percent per year (as compared to 3 percent for income).
* Operating expenses tend to be generally 30-40 percent of gross rents for a market rental project (varies depending on many factors including the limitation on gross rents that can be obtained in a HOME subsidized project vs. a market rate project which has no such limitations). The operating expenses of comparable rent controlled projects should also be examined to determine a percentage for the project.
* The vacancy rate should be a minimum of 5 percent on an annual basis (regardless of project type, size or market conditions).
* Property management fees should be approximately 5-7 percent of gross rents. Please note that the 5-7 percent range is based solely on the managing agent's property management responsibilities. If social services are included in the rent and the managing agent has the responsibility to coordinate/provide such services, the fee may be higher based on additional responsibilities.

EXPENSES

* All partnership distributions (surplus cash) should be included as expenses.
* All debt service should be included in the cash flow projections.
* All non-cash expenses should be included such as depreciation, amortization of fees and amortization of principal.

If the income/expense statement does not meet the guidelines and/or the supporting documentation presented is not adequate to justify the projections in the proforma, the income/expense analysis in the appraisal will be reviewed for consistency and/or verification. The expense sources (property management firm, tax authority, water/sewer department) will be contacted for verification of the costs.

The project cash flow shall be defined as: the spendable cash generated annually (at the end of the yearly period) after all operating expenses and debt service payments have been deducted from the gross revenues of the property. The determination of a reasonable rate of return on the equity investment will be based on an evaluation of the individual project as it compares to market standards for similar investments. Using data contained in the project application, the City will evaluate several factors (e.g., cash on cash return, the internal rate of return, net equity) in determining a "reasonable" rate of return for the project.

Overall Evaluation
If the City determines that the total amount of HOME assistance and other governmental assistance exceeds the amount that the City determines is necessary to make the project feasible due to the unreasonableness of the costs and/or the projected rate of return, the City will consider several options:
1) Reduce the amount of HOME assistance through reducing the development budget accordingly or increasing the non-public funding of the project;
2) Make other adjustments to the project, such as lower the rents to be charged, reduce the term of the loan in order to lower the rate of return; or
3) Deny HOME assistance if the applicant refuses to make reasonable adjustments or to limit its return/costs.

VI. SINGLE-FAMILY RENTAL HOUSING (1-4 units)

The concepts contained in all subparts of Section V above pertain to single-family rental housing of 1 to 4 units as well as multi-family rental housing (for example, income/expense, cash on cash, and net operating income analyses). However, there are two questions the City will consider before applying these concepts:

1) is the rental project owner-occupied? and
2) is the owner-occupied unit being rehabilitated with Federal funds?

If the answer to both questions is YES, the rental income for the owner's unit (had the project not been owner-occupied) must be excluded from the income analysis of the proforma. For example, in a four unit owner-occupied project, only the expected income of the three rental units are included in the income analysis. Similarly, expenses associated with the rehabilitated owner's unit must also be excluded from the proforma. The exclusion of income and expenses of the owner's unit not only affects the net operating income and the cash on cash analyses, but also influences the results of the proforma.

Low-Income Housing Tax Credits (LIHTC)
The City of Evansville will rely on the State tax credit allocating agency's evaluation (which is conducted to determine whether there are excess tax credits) to ensure that HUD subsidies are not greater than necessary to provide affordable housing when combining HOME assistance with the tax credits. Such State agencies have typically established project guidelines (based on project size, characteristics, location and risk factors) that determine appropriate project costs and developer fees. An acceptable State agency certification is done pursuant to either applicable HUD regulations or the Internal Revenue Code.

Other HUD Program Funding
V. PROJECT EVALUATION
Before a PJ invests HOME funds in a project, it must assess if other governmental assistance has been, or is expected to be, made available to that project. In performing this evaluation, the City of Evansville will consider the aggregate amount of assistance from HUD and from other sources that is necessary to ensure the feasibility of the assisted project. The City of Evansville will take into account all the factors relevant to feasibility, which may include, but are not limited to, past rates of returns (in that area for that type of project) to owners, sponsors, investors; the long-term needs of the project and its tenants; and the usual and customary fees in the development of the project.

Sources & Uses of the Funds Statement
As part of the application process, the City of Evansville requires the applicant submit a Sources/Uses of Funds statement for the project. The Sources/Uses of Funds statement should reflect the project development budget and should list:

1) all proposed sources (both private and public) of funds and the dollar amount(s) for each respective source, and
2) all uses of funds (including acquisition costs, rehabilitation/or construction costs, financing costs and professional fees) associated with the project.

The City of Evansville identifies these documents as a detailed project budget, including all items that will incur expenditures during the project and must also include any in-kind services and their respective amounts with back-up signed documents showing the services to be provided are being provided by individuals trained in the respective service.

Sources of Funds: The City of Evansville requires the following:

(1) commitment letters with all terms and conditions for all mortgages, grants, subordination agreements, bridge (interim) loans and investment tax credits (historical, low-income, if applicable) and
(2) if the applicant is a partnership, a copy of the partnership agreement, which will indicate the cash contributions by the general partner(s) and/or limited partner(s).

Uses of Funds: The City of Evansville will request the following on an as needed basis:

(1) earnest money agreement, option or closing statement for land and/or building(s);
(2) construction cost estimate;
(3) construction contract or preliminary bid(s);
(4) agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
(5) appraisal (to substantiate the value of the land and the value of the property after rehabilitation or the structure being built); and

(6) if low-income housing tax credits are utilized, documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization/individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project. All assumptions in the offering should be verified in the supporting documentation. The applicant should also provide supporting documentation for all other costs as specified in the Sources/Uses of Funds statement. If the documentation is not adequate and does not support the costs as stated, the City may request additional documentation, a second opinion and/or reference from the appropriate source (i.e. another construction cost estimator, another architect or lawyer), or deny the project HOME funding. It should be noted that for projects with tax credits to be sold, the proceeds from the sale of these credits must be identified as a source of funding.

KEY EVALUATION POINT

Certification of Federal Assistance

The City of Evansville requires a formal certification from the applicant(s) concerning the governmental assistance provided or to be provided to a project. If no such governmental assistance is to be provided at the time of the application or in the future, the applicant(s) must certify to that fact. The applicant(s) must also certify that should other governmental assistance be sought in the future, the City will be notified promptly.

Review of the Project Development Budget

The City of Evansville will review the project development budget to determine whether the development costs are necessary and reasonable,

taking into consideration the long-term needs of the project as well as the objectives of the HOME Program and the City. As in the Sources/Uses of Funds statement, the budget should include all costs associated with the development of the project regardless of the funding sources. The budget line items may include, but should not be limited to: construction "hard" costs, soft costs (architectural, engineering, legal and appraisal fees), marketing costs, construction loan interest, developer fees, real estate taxes, insurance, all loan fees, building permits, relocation and consultant fees. The project development budget should reflect the total costs as in the "uses" section of the Sources and Uses of Funds statement. The City of Evansville will also review to ensure that the costs being funded by the HOME Program are eligible and the HOME funds per unit do not exceed the maximum per-unit subsidy limits.

The City's review guidelines will focus on the project's quality, and construction costs, architectural and engineering fees and consulting fees. The City will determine what costs are necessary depending on the type of development activity (new construction vs. rehabilitation, occupied vs. unoccupied). The determination of "reasonableness" of the costs is based on all of the following factors:

(1) costs of comparable projects in the same geographical area;

(2) the qualifications of the costs estimators for the various budget line items and

(3) comparable costs published by recognized industry cost index services.

KEY EVALUATION POINT

Rate of Return on Equity Investment

The City requires the applicant to furnish a proforma (project income and expense statement) which must include achievable rent levels, market vacancies and operating expenses and also specify the consequences of tax benefits, if any, and any other assumptions used in calculating the project cash flow to determine the reasonableness of the rate of return on the equity investment. The proforma must represent, at a minimum, the term of the HOME affordability requirements, but longer if applicable (e.g., 15 years for low-income housing tax credit projects). It is imperative, according to HUD that the City scrutinize the proforma to ensure the cash flow projections are reasonable in light of the present economic conditions since the rate of return on the investment is partially predicated on the cash flow. The cash flow projections should neither be unduly conservative nor overly optimistic.